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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

FOREIGN MINISTERS' TALKS

Soviet moves in the second week of the Geneva foreign ministers' conference were designed to break up the West's package plan and to induce the Western ministers to discuss the Soviet peace treaty and Berlin proposals separately on terms most favorable to the USSR.

Foreign Minister Gromyko, in his speech on 18 May, developed the line used by Khrushchev in his speech two days earlier, accepting the Lenin Peace Prize. Gromyko said the Western package was "clearly unacceptable," but indicated willingness to discuss those parts dealing with European security and disarmament if they are separated from the "negative and unrealistic" proposals on Berlin and German reunification. He made it clear, however, that debate on a peace treaty and Berlin must precede consideration of all other questions.

The Soviet leaders probably hope their moves to detach the questions of European security and an arms-limitation zone from the Western package will tend to divide Britain from the United States and France in view of Prime Minister Macmillan's commitment, at the end of his Moscow visit, to discuss these questions separate from German reunification.

Gromyko has also attempted to probe for dissension among the Western powers by floating hints of readiness to discuss a separate or interim agreement on Berlin. After rejecting the Western proposals on Berlin "from beginning to end," he

urged the West to display a "sounder and more businesslike approach" and said the USSR is ready to work out a solution "together with the governments of the states concerned." He emphasized Moscow's readiness to consider Berlin and European security as separate and independent subjects for negotiation.

On the day following the widely publicized reports that the United States might consider an interim Berlin settlement if the USSR rejects the Western package plan, Gromyko, [redacted]

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[redacted] renewed the USSR's previous offers of three alternative solutions: (1) complete withdrawal of Western forces from West Berlin; (2) addition of token Soviet forces to the Western garrisons; or (3) replacement of Western troops by neutral forces under United Nations authority.

Two high-ranking members of the Soviet delegation, in a private talk with an American official on 14 May, had suggested that token Soviet forces could be stationed in West Berlin along with Western troops. This idea was first advanced publicly by Khrushchev in his speech in East Berlin on 9 March.

Moscow's maneuvers to exploit any differences between Britain and the other Western powers were also reflected in Soviet propaganda. Pravda claimed on 17 May that the circulation by Reuters of a version of the West's package plan a day before it was formally

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introduced was an attempt by the British to "stress that they have some ideas of their own on settling international problems which do not coincide with US and French viewpoints."

Khrushchev's conciliatory letters of 15 May to President Eisenhower and Prime Minister Macmillan highlighted Soviet efforts to manipulate the nuclear test cessation issue as a device for exploiting Anglo-American differences and for creating an impression of progress toward agreement which could be used to justify a summit meeting. Khrushchev welcomed the President's readiness to study Macmillan's proposal, endorsed earlier by Khrushchev, for a predetermined number of annual on-site inspections of suspected nuclear explosions. He asserted that agreement on this proposal "would pave the way for the conclusion of an agreement to end all kinds of tests" and portrayed the President as agreeing to the Soviet thesis that "such inspections should not be numerous."

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While Khrushchev's letter to the President accepted in part the Western proposal for further technical discussions on condition they are limited to a study of high-altitude detection, the USSR continues to insist that the fixing of the number of annual inspections is essentially a matter for high-level political decision.

Khrushchev contended in his letter that there is little need for a "special study of criteria for settling so simple and clear a question" as the number of inspections. He warned that debates on criteria might be endless and implied that the United States might prolong them as a means of forestalling an agreement.

Khrushchev has reaffirmed the Soviet position that unanimity of the three nuclear powers would not be required to dispatch inspection teams if the number of inspections is agreed upon in advance.

The Soviet leaders probably hope that the British Government will be inclined to favor their thesis that an inspection quota should be established on a high political level and that any differences between London and Washington on this issue can be exploited to advance Soviet objectives on other questions under negotiation at the foreign ministers' conference and a possible summit meeting.

Western Reactions

The plan of Reuters news agency to open an office in East Berlin gave rise to renewed French and German charges of British "softness." In a tripartite meeting in Bonn, the French minister called the move most unfortunate at this time in view of its undesirable political aspects. The British Government appears not to have been consulted on the move, nor to have advised Reuters of any possible repercussions. The Federation of British Industries has denied a report that it, too, planned to open an office in East Berlin.

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The Western European press has adopted a generally pessimistic tone on the prospects for serious negotiations on the German question. The British press for the most part is agreed that the West's package proposal contains several items which might tempt Moscow, but that the items will have to be discussed separately. The Communist-inspired press in France has been emphasizing the possibility of agreement on nuclear test cessation.

Leading papers in France and Britain have admitted that the question of Berlin may have to be considered separately from the German question or face the risk of breaking off the talks. Several German papers pointed to Berlin as the central question. One prominent progovernment paper in West Germany stated that neither side had made an effort toward serious negotiations.

(Concurred in by OSI)

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MIDDLE EAST HIGHLIGHTS**Iraq**

Iraqi Prime Minister Qasim has reiterated his opposition to a renewal of activity by political parties in the face of local Communist pressure, and he apparently is still refusing to admit Communists to the cabinet as party representatives. Foreign Minister Jawad, a non-Communist, said again this week that the general political situation in Iraq is "improving." Jawad, who claims to know Qasim's thinking, believes the prime minister will gradually take steps to check pressures which tend to "alter Iraq's neutrality."

The National Democratic party (NDP), of which Jawad is a member, has announced suspension of its own activities in what appears to be an effort to support Qasim's stand. This move, the NDP leaders argue, demonstrates their party's obedience to Qasim's wishes and leaves the Communists isolated. It may have the effect of also leaving the field of mass political

activity even more open to the Communists.

Since 16 May Cairo's press attacks on the Iraqi Communists have been sharpened with charges that the party intends to "go underground" to prepare an uprising.

Economically, Iraq is still suffering from administrative chaos, growing labor unrest, and a general exodus of Western businessmen and technicians; there is a distinct possibility that a new round of wage demands, spurred by Communist elements in the labor unions, will produce inflationary pressures which would in turn provide further opportunities for Communist agitation. Lack of coordination between Iraqi Government departments has resulted in such situations as the boycott--for doing business with Israel--of a petroleum firm which supplies the bulk of the Iraqi Air Force's jet fuel. The "purge committees" which have demoralized government offices are being extended to private enterprise.

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Kuwait

Recent action by the Kuwaiti Government in expelling a large number of alleged Communists may produce new tension in relations with Iraq. Against this possibility, the Kuwaitis early this month asked for and were given assurances of British military support. Those expelled from Kuwait have included Jordanians and Palestinians as well as Iraqis. The Kuwaiti Ruler, apparently feeling the burden of his office, has again departed for Beirut, where the political climate as well as the natural one is milder.

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government's emergency powers come to an end. There is not only growing friction between the two Christian ministers-- Pierre Gemayel and Raymond Edde-- but all the ministers are becoming physically weary. Edde claims the four men--together with President Shihab, who seems immune to fatigue--since last October have produced over 10,000 pages of proposals for administrative reforms.

A cabinet change might well be an occasion for a revival of Moslem-Christian tensions. New parliamentary elections have been put off because of fear that an election campaign would have a similar effect. While relatively extreme leaders on each side would prefer elections this year, the moderates, including Shihab, hope to wait until next spring.

Lebanon

At least two members of Lebanon's four-man cabinet have indicated they intend to resign by mid-June, when the Karami

LAOS

Leaders of the Communist-dominated Neo Lao Hak Zat (NLHZ) party in Vientiane have been placed under "protective" arrest following incidents staged by two former Communist dissident battalions in northern and central Laos. These battalions, placed under the authority of the Laotian Army following the demobilization of the Communist Pathet Lao army in January 1958, boycotted a ceremony to mark their integration into the Laotian Army on 11 May. Laotian troops in superior force surrounded both units, cut off food supplies, and ordered them to surrender their arms. NLHZ chief Prince Souphannouvong on 17 May agreed to order both battalions to integrate and on the same day the battalion in northern Laos capitulated. However, the bulk of the unit in central Laos escaped under cover of darkness on the morning of 19 May.

The Laotian Government has taken no further countermeasures against the NLHZ, but it will probably hold the party responsible for the activities of the battalion which escaped. The Laotian chief of staff said he warned Prince Souphannouvong on 17 May that the army would not tolerate illegal acts by the NLHZ.

It does not appear now that the demonstrations staged by the two battalions were intended to signal a return to full-scale dissidence by the NLHZ. Although NLHZ leaders clearly have been apprehensive over the recent formation of a militantly anti-Communist government, they have continued to emphasize the necessity for legal tactics. It

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seems likely that NLHZ leaders would have evaded arrest if the party had planned to resume guerrilla warfare. The flight of one of the two battalions, despite Souphannouvong's reported order to integrate, suggests that the NLHZ political leadership lost control over the unit.

Communist China and North Vietnam responded to the developments with a propaganda campaign aimed immediately at discouraging Laos from repressing the NLHZ and ultimately at securing the reactivation in Laos of the International Control Commission (ICC). Hanoi has requested both the Indian chairman of the ICC and the Geneva co-chairmen-- Britain and the USSR--to return the ICC to Laos. Peiping on 20 May charged that the incidents of the two battalions were a prelude to a military coup and the destruction of the domestic

Communists, and warned Laos to "halt its horse on the brink of the precipice."

Meanwhile, the entry into Laos from Burma of 500 Chinese Nationalist irregulars fleeing the Burmese Army provides Peiping an opportunity to revive its charges against Laos of provocative activities in the Sino-Laotian border area. During April, Chinese Communist patrols entered Laos in search of Kuomintang troops as well as refugees who had been crossing into Burma and Laos in large numbers.

The Laotian Foreign Ministry, apprehensive over the injection of the Chinese Nationalist issue into its already strained relations with Peiping and Hanoi, requested on 19 May that the United States intervene with Taipei to order the removal of these troops.

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PART II

NOTES AND COMMENTS

KHRUSHCHEV HINTS AT FURTHER CHANGES IN AGRICULTURE

Khrushchev has strongly hinted at further changes in Soviet agricultural organization. Some of these are likely to affect the Ministry of Agriculture, which Khrushchev charged was not measuring up to present-day needs. They may include new incentives to agricultural labor, a shake-up of collective farm managers, and increased effort toward specialization and mechanization. Khrushchev, who in effect has directed Soviet agriculture since Stalin's death, is expected to continue to intervene personally in pursuit of the extremely ambitious agricultural goals he has set. These changes probably do not stem from any immediate crisis in Soviet agriculture.

Criticisms of the organization of agriculture appearing recently in the Soviet press have suggested, among other measures, removal of the Ministry of Agriculture's jurisdiction over repair-technical stations, by and large all that remains of the old MTS; reduction of the ministry's role in administering state farms; and establishment of kol-khoz unions to administer collective farms and give the peasants a way to make their needs known to the government.

Recent organizational and personnel changes, which also may point the way to extensive agricultural reorganization, have been the consolidation of the Agricultural Bank into the new Investment Bank announced on 4 March; the appointment on 16 April of Nikolay G. Ignatov to the post of titular president of the Russian Republic (RSFSR), which relieved him of his responsibilities in the agriculture

field; and the replacement of Vladimir Mylarshchikov as head of the party central committee's Department of Agriculture for the RSFSR.

In his Kiev speech on 11 May, Khrushchev charged that the Ministry of Agriculture "fails to meet in many ways the increased requirements of agriculture" and that certain of its remaining duties are superfluous. He specifically mentioned a reorganization of the scientific experimental establishments which would put them on a self-supporting basis, with payment depending on productive results, and their possible merger with "other agricultural organs."

Future changes are likely to include promotion of the kolkhoz union plan. Another possibility, previously discussed in the Soviet press, is an enhancement of the role of the rayon and oblast executive committees in agricultural administration. Any changes would be aimed at strengthening agricultural administration at the local level, as was done for industry in the reorganization of 1957.

Khrushchev criticized the stress some farm officials put on propaganda to the neglect of more productive organization work and, commenting that "friendship should not hinder business," insisted that incapable farm chairmen be removed. Khrushchev said he was opposed to high wage payments to collective farmers, and that he deplored the appearance of a "kulak-like" desire to save money. He coated this pill, however, with promises of better housing and increased communal benefits such as boarding schools, canteens, and clubs.

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Khrushchev also emphasized the importance of improving the quality of agricultural production. Speaking of grape production, he said that low-quality cuttings will produce "grapes so sour as to make the blind see

and the seeing blind." He warned that prices must be established which reflect quality and added that a commission would be set up to deal with this problem.

(Prepared by 25X1
ORR; concurred in by OSI)

SECRET POLICE CONFERENCE IN MOSCOW

At the recent conference of state security workers in Moscow, the Soviet secret police organization (KGB) affirmed its loyalty to the Khrushchev regime and pledged itself to an all-out struggle against the agents of hostile intelligence services. Its promises were made to the party central committee in a letter summarizing the work of the conference--one of a series of meetings held by various government and party organizations to consider the work of the 21st party congress.

The KGB repeated the assurances it had given on the 40th anniversary of the security service in December 1957: that the days of arbitrary police power are over and that the secret police organization is firmly controlled by the party at all levels. This second public oath of fealty to the party within two years was probably prompted by lingering party distrust of the KGB, which may have caused the ouster of security chief Ivan Serov last December. The American Embassy in Moscow has suggested that the KGB may have been quietly seeking to increase its prerogatives and justify its continued existence on a grand scale by referring to the alleged existence of class enemies at home.

In recent months, Khrushchev has hinted at displeasure with the secret police, claiming that there are no longer any political prisoners in the USSR, that the people are completely loyal to the regime, and that the great threat to the Soviet Union is from the external enemy. Perhaps for this reason, the conference felt compelled to recognize in its communiqué the role of the KGB as a political organ of the party during Khrushchev's newly proclaimed era of "building Communism," and to promise better discipline and a reintroduction of the style of work of Feliks Dzerzhinsky, the fanatical party zealot who became Lenin's first secret police chief.

Moscow's accounts of the conference suggest that the regime has ordered the KGB to step up its counterintelligence operations. Khrushchev's demand at the 21st Congress for a consolidation of the security organs was interpreted at the conference as a demand from the party for greater vigilance within the framework of "socialist legality." The secret police accordingly promised to aim the proletarian sword first and foremost against foreign intelligence agents operating in the Soviet Union and the socialist

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camp and to be the "terror of all enemies" of the Soviet state.

Like every other organization, the security service also climbed on the Khrushchev band wagon, crediting him personally

with overcoming the consequences of executed police chief Beria's activities and characterizing the Soviet premier as a true discipline of Lenin and as the "fiery tribune and unflagging fighter for peace the world over."

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THIRD USSR WRITERS' CONGRESS OPENS

The Third USSR Writers' Congress, originally scheduled to be held last December and twice postponed, opened in Moscow on 18 May. In addition to the 500 Soviet delegates, the congress is being attended by 70 writers from more than 40 foreign countries. Both the preliminary build-up and the proceedings thus far have been designed to engender a sense of newness and progress. Writers are being urged to show the "comprehensive building of Communism" launched at the 21st party congress in January and to popularize the new Seven-Year Plan as a step forward into the future of Communism. Khrushchev and most of the top party hierarchy attended the opening session, underlining the importance of this theme.

Alexey Surkov, first secretary of the USSR Writers' Union, emphasized the theme of fresh new vigor in a report on the tasks of Soviet literature in Communist construction. He said the primary task was to portray artistically the spiritual and moral development of people building a Communist society. His claim to freshness was somewhat dissipated, however, by his warning that this was to be accomplished under "socialist realism." His "new" problems for the artist in this step into the future also included two old favorites--how to combine

the conflicting claims of classical traditions and the artist's creative individuality, and how to portray a "positive hero."

In summing up literary developments since the last writers' congress in 1954, Surkov said the attacks of revisionists both at home and abroad had been repelled and previously errant writers had displayed convincing evidence of a desire to reform. He launched a renewed attack, however, on the most celebrated of these, Boris Pasternak, accusing him in absentia of "the behavior of a traitor."

Some writers previously out of favor are attending the congress. Ilya Ehrenburg, who has continued to represent the Soviet Union at international "peace" meetings despite his difficulties with the regime, is a delegate. So is Konstantin Simonov, who played an active role in the Afro-Asian Writers' Conference in Tashkent last fall. Margarita Aliger, who "recanted" in late 1957 and was rewarded by election to the board of the RSFSR Writers' Union in December, is a delegate, as is Aleksandr Yashin, who also admitted his "errors" in late 1957.

Despite the fanfare, congress developments thus far do not suggest that any change in the regime's cultural policy is imminent.

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SMALL-SCALE PRIVATE ENTERPRISE IN POLAND

The revival of private enterprise in Poland stimulated by Gomulka during the first months of his return to power was effectively slowed in 1958 by state-imposed restrictions which have discouraged new undertakings and caused a considerable proportion of those established in 1957 to fail. Whereas about 6,000 private manufacturing concerns were established in 1957, only 1,300 were started the following year. According to data recently published in the Warsaw press, in early 1959 there were 8,800 active private manufacturing enterprises--largely in the food, building-material, timber, and chemical industries.

The total number of persons employed in private industry and handicrafts increased by 77,000 in 1957, but only 7,000 were added in 1958. In trade, the increase was 23,000 persons in 1957 and no rise at all in 1958.

Even before Gomulka came to power, there was a limited reversal of the trend to tax private economic enterprises out of existence. In his October 1956 speech, advocating liberalized economic procedures, Gomulka completed the elimination of the confiscatory tax policy and touched off an immediate rush to establish new retail-trade, crafts, and small manufacturing enterprises.

In its early days the regime promised to help overcome the unfavorable economic climate for entrepreneurs by extending assistance in procuring raw materials and locating business premises, by raising the limits on the number of employees permitted, and by extending credit. It was intended that revival of the private sector should make more consumer goods available, improve distri-

bution and morale, and serve a propaganda purpose.

Although Gomulka probably never intended to permit private enterprise to attain much scope, this sector of the economy began immediately to develop in a manner unforeseen by the regime. Instead of growing in outlying areas, using local scrap and raw material and reducing local unemployment, many of the concerns, especially the manufacturing ones, were set up in the cities--areas theoretically supplied by state organizations. They have competed with the state for scarce and imported raw materials such as plastics, resorting to the black market and to bribery when necessary. They have charged higher prices, and their greater productivity and profits have enabled them to hire employees away from state concerns.

To curtail these activities and prevent competition with state concerns, the government has imposed higher taxes, stricter licensing, and closer control of raw materials. These restrictions have retarded the growth of the private sector, as exemplified by the number of business failures reported for 1958, when 10 percent of the private trade concerns and about 7.4 percent of industrial enterprises went under. The rate of failure was especially high in the Western Territories--former German areas--where the growth of such concerns was especially desired; 15 percent of the private concerns in Wroclaw closed shop during the year, and 18 percent of those in Stettin.

Any increase in the number of private concerns in 1959 will probably be smaller than in 1958. (Prepared by ORR)

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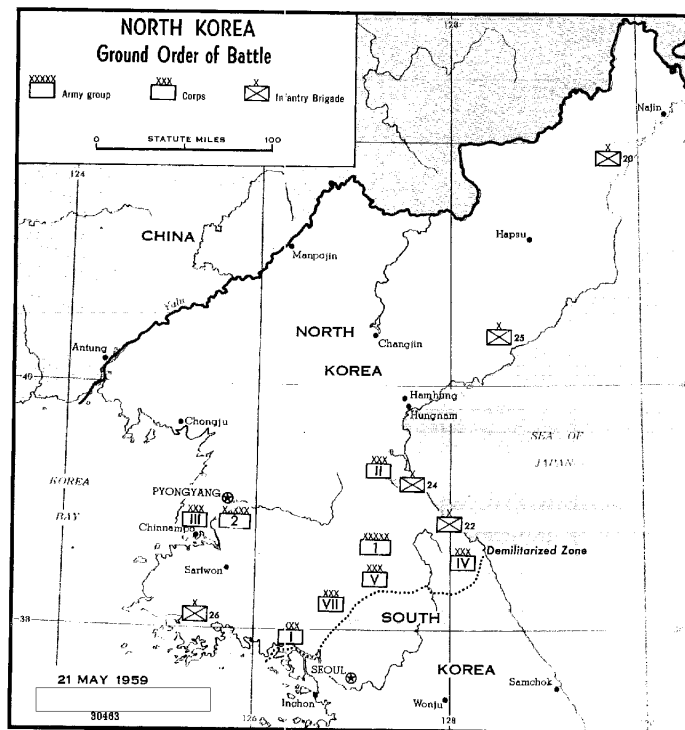
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RECENT NORTH KOREAN MILITARY DEVELOPMENTS

North Korea has continued to improve its armed forces since the withdrawal of the Chinese Communist forces last year necessitated a major repositioning of North Korean Army units. Recent developments include the reactivation of the 22nd Infantry Brigade, which has a coastal defense mission extending from the rear of the extreme eastern flank of the demilitarized zone north to the city of Wonsan. Prior to 1956 there were a total of seven infantry brigades, numbered 20 through 26, with coastal defense missions. In 1956, three of these--the 21st, 22nd, and 23rd--were deactivated.

The North Korean Army is organized into six corps of 18 infantry divisions. The 1st Division has been redeployed from the demilitarized zone to the Pyongyang area and designated the "Capital Division." This is the first North Korean infantry division to be stationed there since the cease-fire in 1953.

larger than 120-mm. The North Koreans regard mortars of 120-mm. and larger as artillery weapons; they used the 120-mm. mortar as a corps artillery piece until it was replaced by heavier weapons. Each army group also has an organic anti-aircraft artillery regiment. These are the first organic artillery units to be established at the army group level.



Continuing the trend begun then, the North Korean Army has further improved its artillery capability. Two new heavy-mortar brigades--the 34th and 30th--have been assigned to the 1st and 2nd Army Groups respectively; each is equipped with 48 mortars of 160-mm. caliber, the first time the North Koreans have used mortars

The Soviet 14.5-mm. anti-aircraft machine gun (ZPU-4) has been identified in North Korean Army units. Although primarily an AAA weapon, it can be used against ground targets--including light armored vehicles--at ranges up to 1,000 yards. These newer weapons are apparently replacing the 12.7-mm. antiaircraft machine guns (M-1938 DShK).

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Since the North Korean military establishment is already almost fully mobilized, it is seriously restricted in increasing its numerical strength--now approximately 345,000 troops. As a result, further improvements--like those in the recent

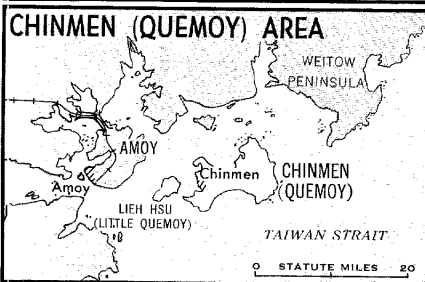
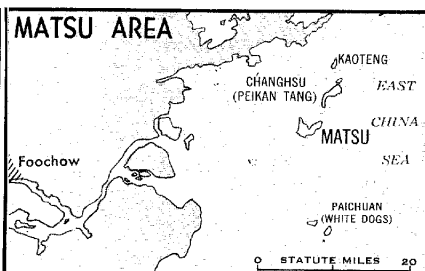
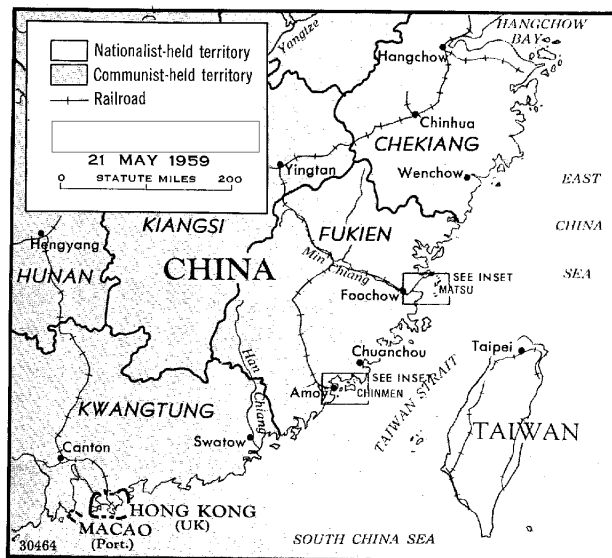
past--will be designed to render the existing organization more effective, but they will not necessarily result in a departure from the defensive posture which has been maintained by the North Korean Army in recent years.

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TAIWAN STRAIT

Recent flare-ups around the Matsu Islands appear to have stemmed from Chinese Communist retaliation for Nationalist actions there. On 12 May the Chinese Communists directed 23 rounds of high-explosive counter-battery fire against Peikan Island in the Matsus. The Communists have frequently fired propaganda shells at Kaoteng in the Matsus, but this was the first use of high explosives

The Chinese Nationalists apparently initiated the incident on 17 May, when two Nationalist patrol craft near the Matsu Islands fired on some 30 Chinese Communist junks which had come within three miles of the islands. The Nationalists claim to have sunk five junks and damaged ten others. Chinese Communist artillery joined in the engagement by firing at the Nationalist warships and



against the island group since 23 June 1958. The bombardment apparently was precipitated by Nationalist firing of propaganda shells.

at Matsu Island and Peikan Island, killing three soldiers and wounding four.

Nationalist propaganda has played up the incident as the

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first heavy Communist bombardment of these two islands, but has omitted details of the preceding naval incident. American authorities on Taiwan believe that the Communist craft were fishing junks operating closer than usual to Nationalist territory and that the Communist shelling was retaliation for the naval attack on the junks. The Nationalists occasionally disperse such concentrations with their naval patrols.

The firing of approximately 286 rounds at Peikan and Matsu islands is the heaviest shelling of those islands to date. The heaviest shelling of any island in the Matsu group occurred on 15 September 1956 when 610 rounds were fired at Kaoteng, the northernmost island of the group. Chinese Communist shelling of the Chinmens has remained light and in fact was discontinued over May Day.

Chinese Nationalist officials claim there is a strong possibility of a Communist attack on the offshore islands timed to coincide with the Berlin crisis. In a recent con-

versation with a high-ranking American official, Chiang Kai-shek alleged that there was a definite build-up of Communist troops from Chekiang southward and that civilians were being moved back into the hills of Fukien Province. There has been no evidence that the alleged build-up has taken place or that the Communists intend to initiate offensive operations in the near future. Attacks on the offshore islands could, however, be launched with little or no warning.

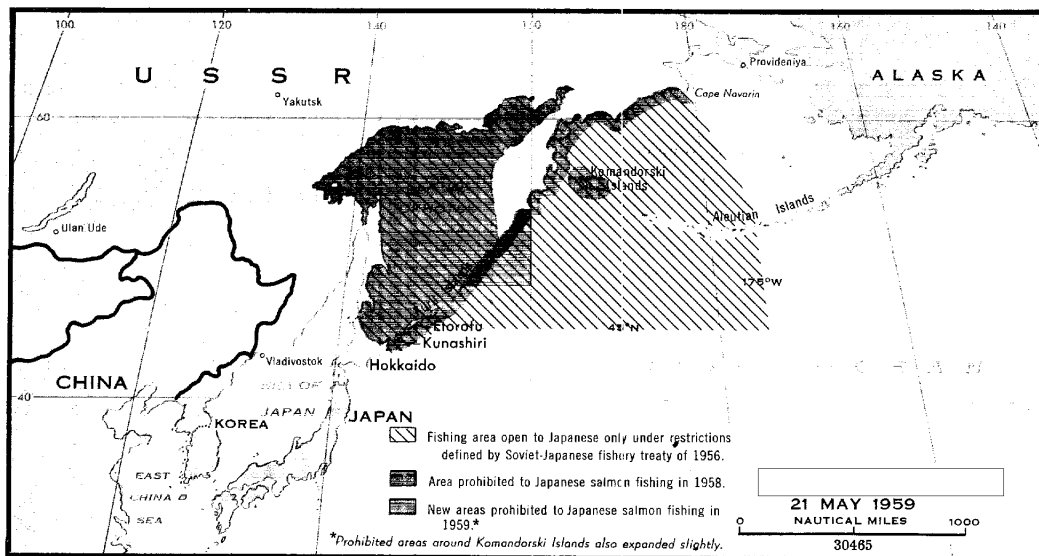
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JAPANESE-SOVIET FISHERY AGREEMENT

The Japanese Government, by submitting to Soviet pressure for increased restrictions on high-seas fishing in the northwest Pacific and adjacent waters in 1959, has encountered severe domestic criticism from the Jap-

anese press and the fishing industry which could adversely affect the ruling conservative party's position in the important upper-house elections on 2 June. In the agreement concluded with the USSR in Tokyo on 13 May, the

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Japanese have accepted a 1959 quota for salmon--85,000 metric tons--which is only about half their salmon catch in the area during 1955--the last year of unrestricted fishing. In addition, there are new limits on Japanese cod, herring, and crab fishing.

The area covered by the Soviet-Japanese fishery convention of 1956 has always provided Japan with the bulk of its salmon catch. Since 1957, however, the USSR has forced Japan to submit to progressively reduced salmon quotas--the 1958 quota was 110,000 tons, to an extension of areas prohibited to Japanese salmon fishing, and to shorter fishing seasons. This year, the Sea of Okhotsk and other areas have been closed to the Japanese.

In the past the USSR has offered more generous fishing quotas in return for Japanese

concessions on political issues, such as a peace treaty. The absence of such offers this year suggests the USSR is genuinely concerned over declining salmon resources, particularly in view of its own long-range plans to expand Soviet fishing in the Far East.

The Japanese press is criticizing particularly the lack of firmness and unity among the Japanese negotiators. The Japanese fishing industry, which employs more than a million persons, also is restive over the government's failure to ease restrictions placed on Japanese fishing not only by the USSR, but also by the United States, Canada, and South Korea. The intensity of this criticism may have given the opposition Socialists a useful issue to exploit in the remaining weeks of the upper-house election campaign.

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SOUTH KOREAN - JAPANESE FISHING CONTROVERSY

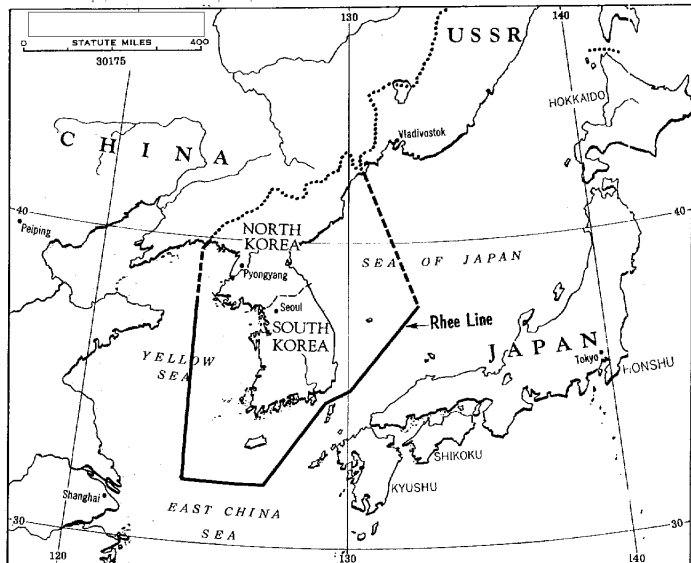
South Korea has resumed its attempts to seize Japanese fishing boats operating in the vicinity of the unilaterally imposed "Rhee line." This action may be intended to force Tokyo to break off negotiations between the Japanese and North Korean Red Cross representatives at Geneva who are discussing the repatriation of Koreans from Japan. Seoul, while willing to resume suspended negotiations for the normalization of relations with Japan, has refused to return to the conference table while the repatriation talks continue.

On 6 May South Korean Coast Guard vessels chased and fired on four Japanese fishing boats operating about 62 miles off northern Kyushu. South Korea is already holding 153

into settlement of outstanding issues on Seoul's terms.

The incident off Kyushu followed in the wake of a South Korean memorandum circulated to all foreign mission chiefs in Seoul attempting to justify enforcement of the "Rhee line." Claiming that conservation of fishery resources and the inherent right of self-defense justify Seoul's position, the memorandum cited the MacArthur and Clark lines, established by American authorities during the occupation of Japan and the Korean war, as precedents for the "Rhee line." American Ambassador MacArthur in Tokyo has observed that the Korean Government's "consistent and willful" misrepresentation of alleged American complicity in the line is jeopardizing American interests in Japan.

Tokyo has steadfastly refused to concede the legality of the "Rhee line," and further seizures are unlikely to result in a reversal of Japanese policy. Continued South Korean refusal to conclude a reasonable settlement of the fishery question, however, may generate considerable domestic pressure on the Kishi government to carry the matter to the United Nations or to take stronger measures to protect Japanese boats.



captured Japanese fishermen, whom they probably intend to use as hostages to pressure Tokyo

to protect Japanese boats.

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INDONESIA

Indonesian political parties continue to wrangle in the Constituent Assembly over President Sukarno's request to return to the 1945 constitution, the latest version of his concept of "guided democracy." Deliberations on the constitution--which gives the president a more authoritative position and de-emphasizes the role of parliament--now indicate support for Sukarno by the National party and the Communists, qualified support by the Moslem Nahdlatul Ulama, and opposition by the Moslem Masjumi. Should a stalemate occur, the army is reported likely to dissolve the assembly and proclaim the 1945 constitution by decree. Both army and political leaders think the critical period will come at the end of May, but none is yet willing to predict the outcome.

Sukarno is midway through a two-month foreign tour which has so far taken him to Turkey, Poland, Scandinavia, the Soviet Union, the Vatican, and Brazil. He has still to visit Argentina, Mexico, the United States (Los Angeles), Japan, Cambodia, and North Vietnam.

Although Sukarno received red-carpet treatment on his unofficial visit to the USSR, [redacted]

[redacted] Moscow's belief that over the past six months Indonesia has drifted

closer toward the West, and that Sukarno intends to curtail the influence of the Indonesian Communist party. Sukarno and his group apparently discussed utilization of present Soviet loans and the possible extension of further Soviet credit. 25X1

Rebel attacks continue against the valuable estate area in North Sumatra in an effort to obstruct or paralyze production, thereby denying revenue to the central government. Continuing rebel raids on Goodyear's 40,000-acre Wingfoot estate, the largest rubber estate in Sumatra, have brought proposals for protection from Djakarta, local government forces, and the rebels themselves, but none of the offers assures improved security in the near future. The latest of these is a rebel offer to guarantee the estate against attack in exchange for 10 percent of its income to be delivered to dissident contacts in Singapore in monthly payments. Wingfoot's acceptance of such a proposal would seriously antagonize Djakarta. [redacted] 25X1

OUTLOOK FOR SETTLEMENT OF INDUS CANAL WATERS DISPUTE

The outlook for settlement of the dispute over the division of the waters of the Indus River basin has improved as a result of the favorable Indian and

Pakistani reaction to the new plan recently presented by the International Bank for Reconstruction and Development (IBRD). IBRD President Black indicated

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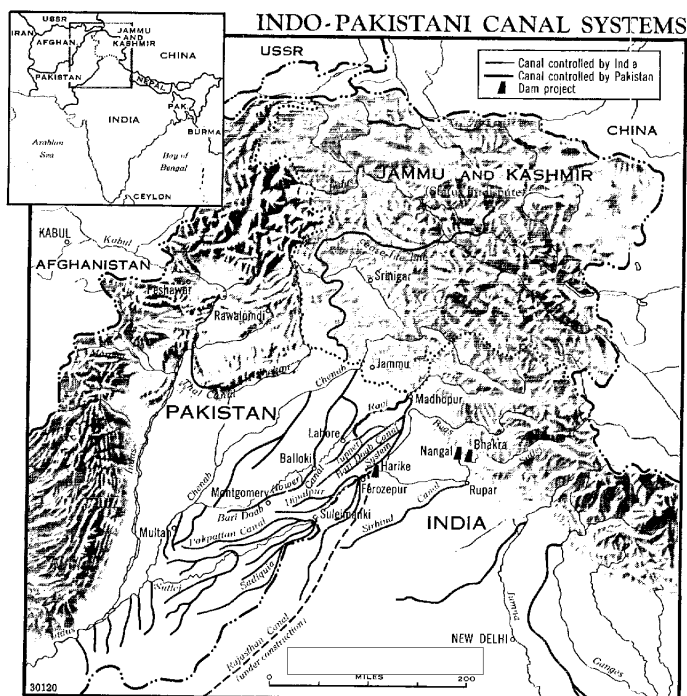
he was optimistic following his talks in New Delhi and Karachi in mid-May, and now plans to seek aid from the Commonwealth and the United States to help finance the plan.

India and Pakistan have agreed for several years on the basic principle for dividing the waters of the Indus basin: India to use the water of the three eastern rivers--the Sutlej,

its latest plan is not accepted its good offices will no longer be available. Pakistan announced its acceptance of the new plan on 18 May

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Nehru still objects to some provisions of the plan.

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Nevertheless, the IBRD has apparently obtained assurance from India that it will not divert any water until the replacement works are operating.

A more difficult issue is India's objection to the plan's provision for a major storage dam in Pakistani-held Kashmir, which New Delhi fears would prejudice its position that all of Kashmir belongs to India. New Delhi seems willing, however, to agree to construction of the dam if it is without prejudice to India's claims.

the Beas, and the Ravi--and Pakistan the three western rivers--the Indus, the Jhelum, and the Chenab. The dispute has been concerned with the location and cost of the dams and canals needed to divert water from the western rivers to replace the water Pakistan now receives from the eastern rivers.

Both India and Pakistan in recent months have shown an increased willingness to settle the dispute, particularly since the IBRD has indicated that if

While both countries will bargain hard to obtain the best terms possible, the chances for a settlement appear brighter than they have since the 12-year-old dispute began.

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EGYPTIAN-SUDANESE ECONOMIC RELATIONS WORSEN

Relations between Egypt and the Sudan may deteriorate further as both seek from the World Bank loans which will raise complicated political differences. Egypt, anxious to begin work on President Nasir's much-publicized \$300,000,000 plan for improving the Suez Canal, is conducting preliminary talks with bank officials. Nasir has balked, however, at an "essential" bank condition--a guarantee of Suez Canal revenues as payment--which he says would be "politically very difficult." He also fears the bank's interest rate of 6 percent may be compared unfavorably by the public with the USSR's 2.5 percent.

Another problem is the clouding of Egypt's credit position as a result of Britain's release of Cairo's blocked sterling holdings. London's move in theory obligated Egypt, under the Suez Canal compensation agreement, to make an accelerated repayment of \$22,960,000 to the old canal company. Thus far Egypt has refused to do so.

The Sudanese Government is becoming increasingly irritated over the possibility that the World Bank might grant credit to Nasir for improvement of the canal while holding up a loan for the Sudan's \$100,000,000 Roseires Dam project pending a

new Egyptian-Sudanese agreement on the distribution of the waters of the Nile River. Success of a large cotton-acreage expansion scheme now under way depends on the proposed dam to assure a water supply.

The old Nile Waters Agreement of 1929, recently denounced by the Sudan, banned either country from changing its proportionate share of the water by this type of dam construction. In the latest effort to settle the dispute, Khartoum has proposed that the issue of the validity of the 1929 agreement be set aside and that negotiations start completely afresh. Although Cairo has not responded, Sudanese officials are encouraged by the World Bank's assurance that it would not let the Egyptian "dog-in-the-manger attitude" delay indefinitely its consideration of the Sudanese loan request.

A crisis could occur in mid-July when Khartoum begins the second phase of the cotton expansion project. By this action, the Sudan will take about 20 percent more water than it is allowed under the old agreement. Since the size of Egypt's rice crop depends largely on an assured water supply, the Sudan may be accused of reducing Egypt's food production.

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GREEK-TURKISH PRIME MINISTERIAL TALKS

Greek Prime Minister Karmanlis and Turkish Prime Minister Menderes sought in their talks in Ankara from 7 to 12 May to remove obstacles in the way of independence for Cyprus. They showed particular concern over the danger of a future Communist electoral victory.

The prime ministers agreed that Athens should advise the Greek Cypriots to back large legislative constituencies in order to dilute Communist influence in urban areas. The London agreements last February, which outlined a government for an independent Cyprus, stipulated that

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the legislature should be 30 percent Turkish Cypriot and 70 percent Greek Cypriot, but left to mutual agreement determination of the size of the legislature. The Greek Cypriots can be expected to favor small constituencies in order to achieve wide representation of differing political views.

The Communists appear unwilling to challenge Archbishop Makarios while he is at the peak of his popularity;

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The danger from the Communists on Cyprus will be greater in the years after independence, when controversies and personal rivalries can be expected to split the non-Communists. Makarios' estimate of the Communist danger is not clear. He has given strong support to the former leaders of the EOKA terrorist organization, who tend to favor an early showdown with the Communists, but he has also urged British Governor Foot to lift the ban on

the Cyprus Communist party (AKEL).

Karamanlis and Menderes agreed publicly in Ankara to cooperate in upholding the London agreements, thus putting pressure on some Greek Cypriot politicians who recently have demanded that the issue of separate Turkish municipal authorities should be renegotiated. Similarly the prime ministers' agreement to maintain a unified stand on the question of British base rights should prompt Makarios to take a more reasonable attitude. His contention that the base areas must exclude inhabited places is unacceptable to the British.

The prime ministers agreed to provide economic aid only for projects of benefit to the entire Cypriot people. This was an effort to deflate impractical plans for Turkish Cypriot economic self-sufficiency.

In order to resolve future problems, the two prime ministers have designated "personal representatives" to meet monthly. Menderes is to visit Athens in September.

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FRENCH POLICY TOWARD GUINEA

Paris now recognizes that it has failed to isolate Guinea by ignoring its existence. Open French intervention in Guinean affairs would be likely to alienate the West African states that have remained loyal to the French Community. Indirect action against the government or person of President Sekou Touré, however, has been considered by some French officials.

France had hoped to punish Guinea for rejecting membership in the French Community, and had persisted in its policy of aloofness even when it became

evident that Touré was surviving the abrupt withdrawal of French administrators and the drying up of French economic assistance. France's allies, however, alarmed by Guinea's commercial ties with the Soviet bloc and the receipt of bloc arms, have become increasingly insistent that Western relations with the new republic be normalized.

Paris, irritated over Conakry's apparent intention to exert influence in West Africa, is reported considering some move against Touré, who personifies Guinea's disruptive

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influence in French eyes.

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The "common service for external security," which the Executive Council of the French Community established in April, may be used as a counter-subversion agency in West Africa.

The French have charged that Soviet bloc arms received by the Guinea Government are far in excess of local needs,

and the French might take action on the pretext of halting arms traffic from Guinea to neighboring areas.

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Paris seems determined to maintain a note of coolness in its diplomatic relations with Guinea. Pierre Siraud, who will arrive on 15 June in Conakry, was originally named as ambassador to Guinea but now will have only chargé status.

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THE EUROPEAN COAL-STEEL COMMUNITY

The future of the European Coal-Steel Community (CSC), particularly in its supranational aspects, has been gravely prejudiced by the refusal of its council of national representatives on 14 May to permit the CSC High Authority to impose community-wide production and import quotas to alleviate the coal crisis.

The council, according to its spokesman, was opposed to giving the High Authority "extraordinarily detailed power of direction over enterprises independent of any government control," and felt that resolution of the coal problem must come primarily from governmental initiatives. This stand is in keeping with the national and protectionist trend which has already led to the curtailment of coal imports in Belgium and West Germany, the organization of a West German oil-coal cartel, and a campaign by the Ruhr mine owners to absorb the coal market in Italy by paying the cancella-

tion fees on outstanding Italian contracts for American coal.

This essentially constitutional struggle within the CSC was provoked in part by West Germany's decision earlier this year to impose import quotas without adequate consultation with the High Authority, and Bonn's opposition since that time to High Authority intervention in the coal crisis has alarmed advocates of the European movement. High Authority sources have suspected that domestic politics are involved in the German attitude--primarily Vice Chancellor Erhard's reluctance to offend Ruhr interests while an active candidate for the chancellorship. The French have attempted to play a mediating role, but have been unwilling to break with the Germans on this issue. Italy has apparently opposed the High Authority primarily for economic reasons.

The High Authority, in deciding to push the coal dispute

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to a showdown, may have hoped to force pro-European elements in the member countries to come to its defense. The European Parliamentary Assembly endorsed the High Authority's position in April, and there has been some speculation since the 14 May council meeting that an extraordinary session of the assembly might be called in an effort to bring pressure on the member governments. The coal

and steel industries, in the meantime, are likely to feel relatively free to ignore High Authority supervision. Anti-integration elements, moreover, now may be encouraged to push for revision of the CSC treaty to deprive the High Authority of some of its powers, which include the right to levy fines on offending companies.

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RIGHT-WING GOVERNMENT FORMED IN THE NETHERLANDS

The right-wing coalition government installed in the Netherlands on 19 May promises only a temporary respite in the political bickering that caused the fall of the Drees cabinet last December and is not ex-

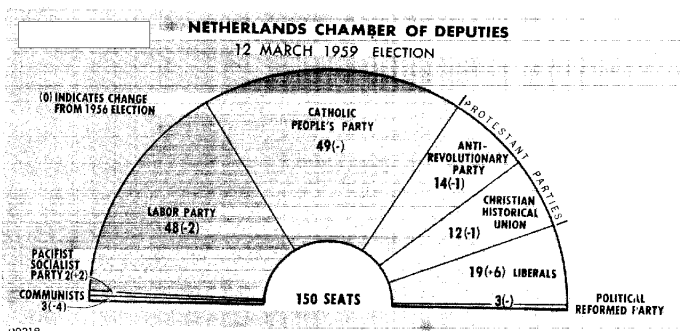
pected to survive a full four-year parliamentary term.

Premier Jan Eduard de Quay's first attempt to bring the conservative parties together collapsed earlier this month because the two small Protestant parties disagreed on cabinet appointees. These parties are apparently satisfied now with their four portfolios in the new 13-member cabinet, which also includes six Catholics and three Liberals. De Quay, who was war minister in the exiled Dutch government in London during the war, has been out of national politics since 1946. Joseph Luns continues as foreign minister, but Defense Minister Staf is replaced by Sydney J. Van Den Bergh, vice president of Unilever Limited and a major general in the army reserves.



DE QUAY

Accentuating the slight trend to the right evident in the 12 March national elections, the new government is the first since World War II in which the Labor party has not participated. As the second largest party, Labor is in a good position to exploit dissension

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among Catholic and Protestant Labor groups, and to take advantage of the right-left division within the Catholic party itself. Some political circles doubt the new government can remain in office for more than a year or two.

No fundamental change in Dutch foreign policy is

expected. A firmer attitude may be taken, however, on the defense of New Guinea. NATO-committed equipment may be diverted to the area if American military aid is not forthcoming and if other NATO countries continue to sell arms to Indonesia.

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NICARAGUAN GOVERNMENT REACTS TO REVOLUTIONARY THREAT

The regime of President Luis Somoza in Nicaragua, aware that it is a primary target of the "antidictator" movements in the Caribbean, is making strenuous efforts to frustrate without bloodshed the revolutionary



LUIS SOMOZA

conspiracies now being planned by various exile groups. The generally effective 5,000-man National Guard, commanded by the President's brother Anastasio, has been alerted, and Nicaraguan officials have made it clear that neighboring Honduras will suffer prompt retaliatory action if it permits its territory to be used as a staging area by Nicaraguan revolutionaries.

In addition to military preparedness, the 35-year-old President has already made significant political concessions which can be used to dispute opposition claims that he is a dictator. Somoza looks on his government as the necessary transition from the strongman regime directed for 20 years by his late father to a more democratic government. Since Somoza's election to a six-year



ANASTASIO SOMOZA

term in 1957, the press has been unrestricted, despite the irresponsibility of most of the anti-Somoza papers, and the opposition has been permitted considerable freedom.

The President has initiated a constitutional amendment that

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would forbid a president's re-election or the election of a relative of an outgoing president. He has repeatedly promised that at the end of his term in 1963 he will turn the government over to a successor chosen in a free election.

Most opposition groups, however, remain determined to end the "Somoza dynasty" as quickly as possible. Communist-led exile groups are seeking support for their revolutionary plans in Cuba, and non-Communist factions hope to benefit from former Costa Rican President Jose Figueres' obsession with organizing an anti-Somoza revolution in Nicaragua.

A faction of the opposition within Nicaragua proposed early this month that the government could avert a revolution if it made a further series of political concessions. First among these would be the immediate dismissal of Anastasio Somoza, who is unpopular and remains probably the chief target of the opposition. Another concession would be the reduction of the presidential term to four years, permitting elections in 1961. President Somoza is unlikely to accept these demands as they stand, but there may be some room for negotiation.

President Somoza would almost certainly react to any revolutionary invasion of Nicaragua by calling for immediate action by the OAS. [REDACTED]

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POLITICAL TENSIONS IN PERU

The Peruvian Government's new suspension of constitutional guarantees on 16 May was prompted by a plot involving Communists, disaffected military elements, and archconservatives seeking to seize power. The plotting is unlikely to succeed, but the government undoubtedly welcomes the excuse to extend authoritarian controls because of widespread dissatisfaction and unrest.

This is the first time since the regime of conservative President Prado began its attempt at democratic government in July 1956 that a suspension has been renewed beyond the original 30 days. Two previous 30-day suspensions of guarantees, in 1957 and 1958, succeeded in quelling outward manifestations of unrest. The government's suspension on 16 April, however, neither ended a Communist-led

bank strike, which had been the publicly avowed reason for the decree, nor halted the Communist-aided revolutionary plotting [REDACTED]

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The revolutionary activity was first apparent on 17 March when telephone lines were cut and antigovernment handbills were distributed in the mountain town of Oroya, headquarters of the American-owned Cerro de Pasco Company. The badly organized effort is said to have had ramifications throughout the country and to have involved the cooperation of junior army officers, Communist labor leaders, some wealthy conservatives, and Popular Action, a Communist-infiltrated party led by Fernando Belaunde, runner-up in the 1956 presidential election.

The revolutionary plotting continued, despite the government's

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suspension of constitutional guarantees. The next scheme was apparently to be touched off by a general strike scheduled to begin on 4 May in Arequipa, Peru's "cradle of revolutions." When the strike failed after 24 hours, the plotters changed their tactics to terrorism and reportedly threatened to assassinate key political figures and to attempt a revolutionary overthrow by mid-May. Moreover, the Communist-led bank strike in Lima which began in early April is still almost 50-percent effective despite the government's

arbitral wage award and insistence that management can replace those still on strike.

The government's opponents are unlikely to stage a successful coup. Nevertheless, Prado's weak leadership in the face of increasing Communist activity and deteriorating economic conditions could induce the military command to remove him in favor of an equally conservative but more energetic regime.

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PART III

PATTERNS AND PERSPECTIVES

NASIR'S POSITION BETWEEN EAST AND WEST

UAR President Nasir is faced with some of the most critical problems of his career as a result of his conflict with Communism in the Middle East. He and his advisers appear to feel their six-month-old anti-Communist campaign has permanently altered the character of their relations with the Sino-Soviet bloc, even though the door is still open to a partial reconciliation.

At the same time, Nasir does not appear hopeful that a fully compensatory improvement will develop in his relations with the West, whose motives and policies he continues to suspect. In effect, he seems to face the necessity of practicing the neutralism he preaches, and of playing off East and West under circumstances in which his room for maneuvering has become narrow.

Anti-Communist Campaign

Nasir began his all-out anti-Communist campaign on 23 December 1958 with a speech at Port Said denouncing Communist activity in Syria. Unlike previous moves against UAR Communists, this campaign resulted in wholesale arrests and imprisonment of party members and apparent disorganization of the Communist apparatus in the UAR. The campaign led to bitter exchanges between Cairo's propaganda organs and those of Iraq and the Communist bloc, as well as mutual recriminations between Nasir and Khrushchev.

After reaching a high pitch in the first three months of 1959, the campaign settled down to a less strident but nevertheless determined tone. Direct criticism of the USSR has been muted. Daily propaganda blasts at Communism cite it as the "new imperialism" and also contain equalizing charges against the

"old" imperialism. Renewed emphasis is being given to the role of neutralism as the way to salvation for all countries threatened by the ambitious designs of both the Eastern and Western camps. UAR press and radio comment on the Geneva talks has played up this line.



NASIR

Cairo apparently undertook the campaign with considerable anxiety. However, it would have been inconsistent with Nasir's avowed principles of neutrality to remain silent in the face of the manifest Communist gains in Iraq since the 14 July revolution and would have injured his prestige at home and abroad. This neutrality nevertheless is based on more than the moral pretensions notable in many of Nasir's pronouncements. He is no doubt convinced this is the best way to serve the UAR's national self-interest; for practical purposes Cairo has used Nasir's rule-of-thumb principle of "befriending those who befriend us."

In the present case, Cairo surely felt that Soviet support of the Communists in Iraq was not an instance of "befriending" the UAR; developments there

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threatened to weaken Syrian allegiance to the union with Egypt and, furthermore, endangered Nasir's own leadership in the Middle East. Considered in this light, vigorous opposition to these developments was essential.

Cairo had cause for anxiety at the start of the anti-Communist campaign. The Nasir regime was not certain how the switch from a pro-Soviet line would be received within the UAR. Some officials apparently still fear the USSR will retaliate by cutting off economic and military aid, although they profess to believe Soviet aid could be sacrificed without disastrous results. Some of them are also counting on Soviet reluctance to risk the loss of prestige in other countries of Africa and Asia which would result from reneging on commitments to the UAR. At the same time, there has been obvious relief among these officials at the steps taken to improve relations with the United States as well as hope for further signs of American "support."

The regime considers the campaign a success in Egypt and Syria. Nasir has said the job of "inoculating" the UAR public against Communism has been completed, and popular reaction seems to have been almost uniformly favorable. The change by press, radio, and officialdom from habitual praise to denunciation of the Communist bloc was abrupt, but the regime's insistence that the change was in defense of Arab dignity and sovereignty seems to have been convincing.

Except for the Syrian and Egyptian Communists, who now are disorganized or in jail, there has been no significant opposition. In fact, former critics

of Nasir are reported to feel he has proved himself a genuine neutralist by standing up to the Communists. There have been reports of dissidence within the UAR military establishment, but the amount of organized opposition against the regime is unclear. Nasir appears to have taken adequate security measures, transferring, retiring, and arresting those not in sympathy with his anti-Communist program.

Syria remains, however, the object of Cairo's continuing concern. Despite various measures taken in the past year, Cairo is uncertain of its hold over Syrian loyalties. Cairo feels it must solve the problem of Syria's dissatisfaction over its minor role in the UAR Government and its present shaky economic situation. The regime fears that a "Communist showcase" in Iraq would present a displeasing contrast to the Syrians unless their conditions are soon improved. A special, high-level study group has been considering Syria's economic problem for several months, and Cairo has recently announced plans for elections, which it probably hopes will provide a sop to Syrian desires for political representation.

Area Reaction to Campaign

While Nasir's anti-Communism may be called a success within the UAR, it has not received unqualified support in the rest of the Arab world. It has had no appreciable effect on the course of events in Iraq, and indeed may have secured results opposite to those intended. There is a growing belief in the area that UAR propaganda has been largely responsible for acceptance by Iraqi Premier Qasim of Communist support; this belief may have influenced Nasir's decision to soften his anti-Qasim line.

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King Husayn of Jordan considers Nasir still the principal long-term threat in the area and has commented that Cairo's all-out anti-Communist efforts have come rather late in the game. At the other extreme, Nasir may have greatly influenced the heretofore pro-Soviet Crown Prince Badr of Yemen, who now is showing signs of determination to rid Yemen of its commitments to the Sino-Soviet bloc.

Nasir's most noteworthy effort to line up Arab support, made at the Arab League meeting in Beirut in March, took the form of a clumsy, uncompromising demand for pan-Arab denunciation of the Baghdad regime. The UAR representative's dictatorial tactics offended several delegations, and the meeting resulted merely in a mild resolution promising to create an investigating committee. This has yet to take any action.

Nasir's need to mend his fences is real. Despite his overt attitude of disdain for taking the initiative, there are indications that some mediation is already under way. Lebanon and Morocco appear disposed to mediate Nasir's long-standing quarrels with Jordan and Tunisia, but the immediate prospects for a united Arab front are not good.

Outlook

The next stage in Nasir's relations with the USSR may develop from further exchanges with Khrushchev. Throughout the anti-Communist campaign, Soviet bloc military and economic aid has continued to flow to the UAR. The USSR has given considerable publicity to this as "evidence" of its good intentions and ability to cooperate with Nasir despite "ideological differences."

Khrushchev has publicly criticized Nasir and his policies, but reportedly apologized in his letter to Nasir of 20 April. The contents of Nasir's lengthy reply, sent to Moscow only last week, have not been revealed. Nasir's reaction to the criticism was immediate and violent.

Nasir has already been subjected by the Communist-controlled press in Baghdad and Beirut to accusations of "selling out" to the West. This type of attack poses his greatest dilemma. Sensitive to hostile propaganda, he has probably been embarrassed by Baghdad pointing out his improved economic relations with France, his financial agreement with Britain, and, above all, the suggestions of cooperation with the United States.

These developments, when contrasted with Nasir's long-time pose as one of the most dedicated opponents of Western "imperialism," could undercut his pretensions to leadership in the Afro-Asian world. His realization of this has prompted him to reassert his neutralism, keeping his moves toward the West as unobtrusive as possible.

Because of the UAR's economic and strategic weaknesses, Nasir is unable to free himself from relatively heavy dependence on foreign economic support. He is being driven increasingly into a position where he is "at war" propaganda-wise with both East and West while he tacitly accepts whatever aid and comfort he can get from each. This contrast between propaganda and practice limits the amount and kind of aid Nasir can ask for, and he therefore may not get enough from either side to make his regime a success over the long term.

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POPULATION MOVEMENT IN GERMANY

Since the end of World War II there has been an extensive population shift in Germany. By far the larger number moved from East Germany to West Germany, but there has also been some movement in the other direction. There has been a gradual decline since 1956 in the number of refugees fleeing to West Germany; on the other hand, there has been an appreciable increase during the past year in West Germans moving to the East.

East German Communist leaders have repeatedly expressed concern over the steady drain of manpower which by now has left East Germany with the oldest work force and next to the lowest birth rate in Europe. The population loss--approximately 3,500,000 have fled since 1946--has been practically three times the natural rate of increase, so that the total population has declined from 19,000,000 in 1948 to 17,400,000 at the end of 1958. About half the population loss has been registered in the under-25 age group and it has been concentrated in the age groups under 45, people in their prime reproductive years who

could contribute most to industrial and agricultural production.

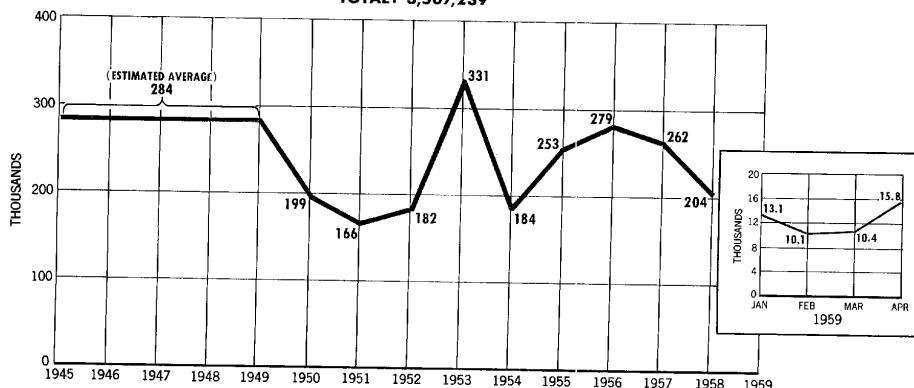
Exodus of Professional Men

The East German regime is particularly alarmed by the continued exodus of highly trained individuals, a trend which is seriously hampering the fulfillment of its ambitious plans. Since the flight of doctors and other professional people is sparked more by social and political frustrations than by economic hardship, the regime has resorted to political blandishments, but without marked success. The flight of doctors and teachers, both at university and lower levels, has resulted in a serious deterioration of medical care and educational standards.

The acute shortage of doctors, 1,272 of whom fled in 1958, has become an increasingly serious problem for the regime. East German officials have admitted that in some areas there now is only one doctor for every 3,000 to 4,000 inhabitants. The nationwide average is one doctor for every 1,700 persons, as compared with an average of one to 700 in West Germany.

**EAST GERMAN REFUGEES
TO WEST GERMANY AND WEST BERLIN**

TOTAL: 3,507,239



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	LAWYERS	DOCTORS	PHARMACISTS	UNIVERSITY TEACHERS	OTHER TEACHERS	ENGINEERS & TECHNICIANS	STUDENTS	TOTAL
1954	234	270	109	28	2,045	1,610	879	5,175
1955	157	344	108	56	2,720	2,475	1,835	7,695
1956	156	467	125	43	2,453	2,672	1,431	7,347
1957	71	440	99	58	2,293	2,196	1,894	7,051
1958	75	1,242	184	208	3,089	2,345	2,522	9,665
TOTAL	693	2,763	625	393	12,600	11,298	8,561	36,933
INCREASE FOR 1958 OVER 1957	4	802	85	150	796	149	628	2,614
PERCENT OF INCREASE	6	180	86	259	35	7	33	37

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Some communities reportedly are "temporarily without medical service," leading the regime to make plans to import doctors from other Communist countries. There is also a critical shortage of dentists and pharmacists. The provision of a free health service for all East Germans had been one of the regime's main boasts, but the mass flights have brought this system to the verge of a breakdown. There has been a sharp increase in illness among the populace which is directly attributable to the shortage of medical personnel.

Motivation of Refugees

There seems to be no single, clear-cut motivation for all the intellectuals leaving East Germany. In each case there was some precipitating factor, some new development or change of circumstances which provided the immediate justification for flight.

Typical reasons given include: receipt of a summons to appear before a party or government functionary to explain some previous statement or action; recent moves to

Communize educational institutions in line with the regime's "polytechnical education" program; physical or nervous exhaustion caused by overwork or psychological harassment; promotion of party members with limited professional qualifications over better qualified non-party individuals; and an increasing tendency to judge a doctor or other professional man by his "socialist attitude" rather than by his professional capabilities.

Probably more important than any of these reasons was the regime's deliberate and systematic discrimination in educational opportunity against the children of the intellectual and professional classes in favor of children with "worker-peasant" backgrounds, regardless of mental capabilities.

Regime Countermeasures

In an effort to halt the refugee flow, East Germany over the years has used--without notable success--a combination of border controls, intensive political indoctrination, threats of punishment for flight or attempted flight, persecution of relatives, and concessions

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to medical men, intellectuals, and professional people. These efforts seem to be more successful with manual workers and farmers than with the better educated professional people; the proportion of the latter category among refugees is not only greater than among the East German population as a whole, but much greater than in the past.

Last September the regime announced a more lenient policy --never fully implemented--to-ward doctors and dentists in an effort to hold them. Doctors were to be permitted to attend scientific events in West Germany and to travel in the West; they were not to be forced to adhere to Marxism-Leninism; children of physicians and "other circles of the intelligentsia" were no longer to be barred from schools and universities; and physicians, dentists, and pharmacists were to be permitted to have private practices. While the new approach did temporarily slow down the flight of doctors, it did not stop it. The regime is also conducting a vigorous campaign to induce defected doctors to return, but without significant success.

West-to-East Migration

The East German regime claims that the number of Germans leaving West Germany to take up permanent residence in East Germany has increased significantly during the past year, especially during the early part of 1959. Reliable statistics are unavailable, but there has been an increase in eastward migration.

The Communists published figures in March purporting to show that 19,638 persons "fled from the misery and poverty of the Federal Republic" from mid-December to mid-March--an annual rate of approximately 79,000--but a more realistic estimate would be somewhat less than 1,000 per week. During the same three-month period 33,580 East Germans and East Berliners fled to the West. In the past it was estimated that one person

came to East Germany for every ten who moved in the opposite direction. Allied officials in Germany believe the rate for 1959 will be approximately one to four.

The Communists claim that a number of skilled workers--particularly mine, metal, and construction workers--have migrated to the East as a result of the recession in West Germany. A number of unemployed coal miners from the Ruhr who can get good wages in East Germany, where skilled miners are scarce, have been lured there by promises and propaganda. The regime boasts that 70 percent of the new arrivals are young men under 25 who have fled rather than serve in Bonn's "imperialistic" army. The East German regime is directing much of its propaganda at young people in West Germany who face conscription, pointing out that East Germany has no conscription and promising students continuation of their studies and younger workers employment in a trade of their choice.

The majority of these originally fled to the West. Some of them undoubtedly are unstable and made the trip several times. Others have faced discrimination in jobs and housing; in some cases skilled workers from East Germany have found it impossible to obtain jobs in their own trades because available vacancies are filled with West German workers. Other individuals go back because of separation from families, curiosity, a search for adventure, disillusionment, or to marry a resident of East Germany.

The expanding East German economy, the shortage of labor, and the possibility of lucrative employment and rapid advancement have also contributed to the increased flow to the East.

In a large number of cases, eastward migrants have experienced unemployment, part-time employment, or housing difficulties immediately prior to flight. It is clear that the return of many youths to East

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Germany is not due so much to lack of job opportunities as to difficulties in adjusting to unaccustomed living conditions and to unsuitable housing conditions after their release from refugee camps. Lack of contact with the local population--with youths of their own age in particular--has been an important factor in many youths' decisions to return to East Germany.

Treatment of Returnees

Most of those who return to East Germany allegedly are not prosecuted for violation of the passport law, and this information is being spread in the West. Judges and other officials reportedly are told to be lenient in the prosecution of returnees and to impose prison sentences only on individuals who by their flight had "abused the trust placed in them" by the regime.

The East German population is becoming increasingly aware of the return migration, partly as a result of skillful propaganda by press, radio, and television. The realization that a substantial number of people are moving eastward may be retarding the westward flow somewhat.

A considerable number of those going to East Germany do not remain there long and soon turn up in refugee camps in West Berlin or West Germany. Many express disappointment with jobs and housing, the same complaints they had when moving in the opposite direction; others say they cannot stand the atmosphere of repression in East Germany.

East German Attitudes

East Germans are somewhat more hopeful about prospects for the future than they were

last fall, largely because of greater confidence that the West--especially the United States--will stand fast on Berlin. Many East Germans, even those who have no intention of leaving, consider that they have a strong interest in the continued presence of the Western powers in Berlin. With the "window to the West" closed, the regime could impose much more stringent political controls and the more rapid program of socialization advocated by Ulbricht and the doctrinaire Communists--with a resultant drop in consumer goods and a deterioration in the standard of living.

The drop in the refugee flow in early 1959 is not entirely the result of security measures. One of the most significant other factors is the feeling of resignation that has grown among the East German population. Another important consideration is the fact that most East Germans do not have the financial means to maintain themselves during the transition period in the West and have no desire to spend a long time in a refugee camp. Improved conditions and a higher standard of living in East Germany have also tended to discourage potential job seekers from emigrating.

The East Germans did not panic following Khrushchev's move to drive the Western powers out of Berlin, and there has been no mass exodus from East Germany. The general populace, tending to react to social and economic conditions affecting them directly rather than to the political situation, appears to have been less affected than those who are more sophisticated politically by the Berlin crisis.

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FINLAND AND A NEUTRAL NORDIC BLOC

Recent reports of increased Finnish interest in a neutral Nordic bloc composed of Denmark, Norway, Sweden, and Finland indicate that the Finnish Government, in contrast to the passive foreign policy it has generally pursued since World War II, may be preparing to play a more active political role in northern Europe.

Although there is no firm evidence that the Finns are at present under direct pressure from Moscow to push a neutral Scandinavian bloc, President Kekkonen and certain other high Finnish officials probably feel that creation of such a grouping would ease Soviet pressure on Finland and serve to strengthen its neutral position. They may also believe that feelers to these countries, although without hope of positive results now, can be used to rebut any Soviet claims that Finland is not working for "peace" in the area.

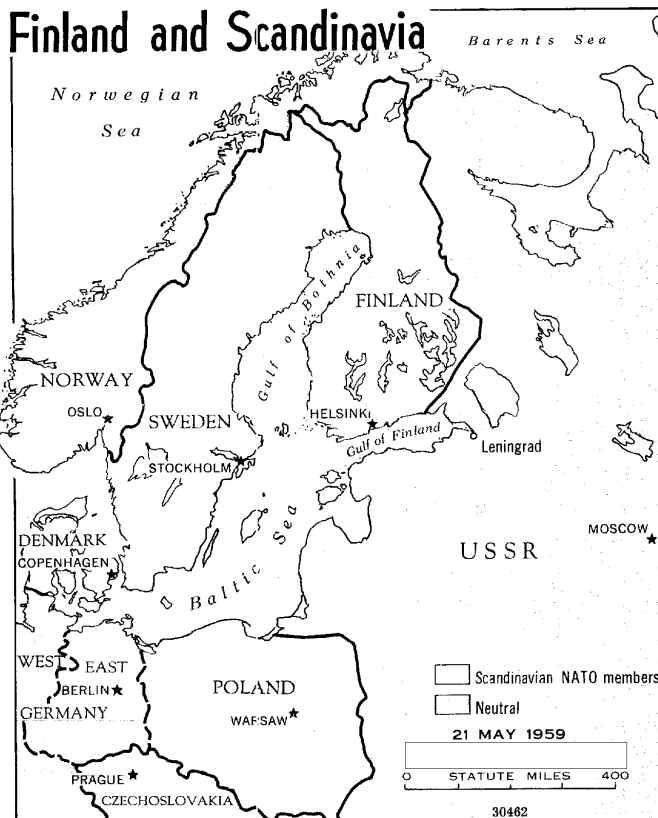
Finnish interest in a neutral Scandinavian bloc reached a high point in 1940 following the so-called "Winter War" with the Soviet Union. Denmark, Norway, Sweden, and Finland had formed a loose association in the early 1930s but Soviet opposition kept it from developing into a defense alliance after 1940. During the postwar period the Soviet attitude has remained largely negative, but in the past several years there appears to have been increased appreciation by the USSR of the advantages of such an arrangement for Moscow--par-

ticularly the attraction it might have for the Scandinavian NATO members, Norway and Denmark.

Soviet Initiatives

During Khrushchev's state visit to Finland in June 1957 Soviet officials urged the Finnish Government to assume a more active political role in northern Europe and to seek to influence developments in the area. Khrushchev told Kekkonen that, since the Soviet Union has as its long-term goal the creation of a neutral north, Norway and Denmark eventually would have to leave NATO.

The Soviet leader emphasized that it was vital to Finland's interests to "cooperate and be an intermediary" in achieving this objective since a threat



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to the USSR posed by these countries' membership in NATO could also involve Finland. He also hinted that as a sign of good faith the USSR would be prepared to make a border adjustment with Finland when there was a real prospect for the formation of a neutral Nordic bloc.

Finnish officials reportedly insisted they could not possibly attempt to influence their Scandinavian neighbors in this matter or "promote peace" in northern Europe since this would conflict with Finland's policy of noninvolvement. Nevertheless, Soviet officials have continued to press the point.

A high Finnish Foreign Ministry official recently told an American Embassy representative that the other Nordic countries are "extremely sensitive" to any attempt by Finland to influence their policies on behalf of the USSR. He added that it would be "disastrous" for cooperation between Finland and the other Scandinavians if Finland were in effect acting as an instrument of Soviet policy.

Finnish Reaction

Finnish attitudes toward such a grouping apparently have ranged from considerable interest shown by President Kekkonen to skepticism on the part of various Foreign Ministry officials. A major obstacle is the 1948 Treaty of Friendship and Mutual Assistance with the USSR by which Finland assumes certain obligations in the event of an attack or threat of attack against the USSR through Finnish territory. This automatically prevents Finland from pursuing an entirely independent foreign policy.

Since the Khrushchev visit, little was said about a neutral bloc until last month when Kekkonen suggested to some of his ministers that the time might be propitious to sound out the possibilities. Kekkonen ap-

parently believes that opinion in Norway and Sweden is "softening up," and since the USSR desires to see Norway and Denmark leave NATO, it may be possible to persuade Moscow to release Finland from the 1948 agreement. Finland presumably then would be in a stronger position to influence the Scandinavian countries without being suspected of acting as a Soviet tool.

Foreign Minister Torngren appeared to be laying the groundwork for such a purpose in a speech on 10 May when he remarked that it would be a great advantage to Finland if the entire Nordic area remained outside "great-power military tension."

Although recognizing that the 1948 agreement has contributed to the stabilization of relations between the two countries during the precarious early postwar years, various Finnish officials have indicated their concern over the ambiguous wording of certain sections of the treaty which they fear could invite serious Soviet interference in Finnish political and military matters.

Finnish officials probably are especially worried about recent Soviet protests to Norway regarding plans to allow NATO forces in wartime to use Norwegian naval depots, since such a step might lead to Soviet counter-measures involving Finland.

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Probable Scandinavian Reaction

Denmark: Any tentative feelers regarding a neutral north would have some appeal in Scandinavia, particularly in Denmark which is one of the weaker and more vulnerable links in the

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Western alliance. The latent appeal of neutralism and pacifism in Denmark is reflected in a recent Gallup poll, showing a drop of 25 percent over the past 15 months among those favoring Denmark's support for NATO. However, the Danish Government remains committed to membership in NATO and will continue its support until convinced that Denmark's independence can no longer be preserved through membership in NATO.

The Danes probably believe that at the present time the Soviet desire to avoid a war is strong enough to enable Denmark to go along with a reasonably firm line in NATO, particularly on those issues close to home--i.e., Berlin. Denmark would probably stay out of other situations threatening to involve NATO members in war, particularly in the Far East or Middle East.

While sentiment supporting NATO has reached a low point in Denmark, it seems likely that the Soviet Union itself would have to make specific concessions demonstrating its peaceful intentions before public opinion would seriously consider supporting neutrality. Aside from the solution of such basic issues as the Berlin and German questions, the release of Finland from the 1948 treaty and possible border adjustments with that country would impress the Danes and further strengthen the influence of neutralist groups.

Norway: The Nordic bloc proposal probably would have less appeal to the Norwegians, who still recall the harsh World War II occupation. The government at the moment faces no internal political threat to its policy of firm commitment to NATO. At the same time, however, Oslo will continue to follow a policy of nonprovocation toward the Soviet Union and will

not permit foreign troops or bases on its soil as long as Norway is not directly threatened with attack.

Sweden's tradition of neutrality predisposes it toward some sympathy for the concept of a Nordic grouping. Having managed successfully to stay out of two world wars, Sweden would be reluctant to extend its commitments to all of northern Europe and to underwrite the defense of the other three countries--particularly relatively unarmed Finland with its 800-mile common frontier and long history of conflict with Russia.

Furthermore, in view of the reluctance of Denmark and Norway to increase their defense efforts and the probable inability of Finland to do so, the major burden for defending the north would fall on Sweden as the largest and wealthiest member. Public opinion would be likely to oppose any further increase in the already considerable defense burden.

Prospects Remote

In light of the existing political and military division of Europe and the dim prospects for settling outstanding issues between the Soviet bloc and the West, the prospects for the formation of a Nordic bloc are remote. No responsible political party in Denmark or Norway would propose withdrawal from NATO at this time, and none of the countries has any confidence in an unarmed political association. In the interim, all four countries will continue to devote their attention to developing closer economic relations--including the proposed Nordic market which may come into operation next year--and to further extending the area of practical cooperation, which now reaches almost every field of activity.

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